RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Apr. 26, 1995 **LETTER 1172**

THE PICTURE: Three major concepts have confounded, insulted and embarrassed mankind. The first -- men were convinced that their beloved earth was the absolute center of the universe. But along came a Polish astronomer named Copernicus, who told the good people that the earth was simply another rather small planet, and that the earth (can you believe it?) actually revolved around the sun, rather than the other way around. The good people of earth were both disbelieving and furious, to say the least. And they gave poor Copernicus a very hard time.

Next, men and women were happy in thinking that they had been created overnight in the fabled Garden of Eden. But along came an Englishman named Charles Darwin, who informed us that the process had been a very long one (Darwin's theory of evolution), and that (God help us) man had evolved from (yuck) a hairy ape. The world was incensed and aghast.

The third and final insult arrived (courtesy of a Jew named Freud) when mankind was told that they were not necessarily their own masters, but that their actions and even their thoughts were influenced and often dictated by a force which they were completely unaware of. Freud called this mysterious force "the unconscious." Freud was denounced widely, and to this day many people deny that Freud's ideas have any validity.

Could there a fourth insult to humanity? Wait, I think there is one, and here it is . . . Men and women in the '90s were convinced that the *royal road to riches* simply entailed buying "good stocks" or mutual funds and holding them for months, years, even for decades. Then along came . . . but wait, I don't want to give away the end of the fable.

Maybe the single most important fact about this market is that the yield on the Dow has now shrunken to a very rarefied 2.57%. This ties the lowest Dow yield on record. I'm referring to the ultimate low yield which appeared just before the '87 crash (for more on yields, please turn to the section on Price/Dividend ratios).

But no matter, the stock market, seemingly, couldn't care less about yields. Micro-yields, falling dollar, rotten current account figures, sinking car and home sales, forget it. The investing public is intent on only one thing -- getting its money into the stock market as quickly as possible.

And in truth the market has been pushing steadily higher. Breadth has been lagging, and daily new highs have been sub-standard. But then there's my **Primary Trend Index (PTI),** which turned bullish on February 5 (that was the day when it rallied above its 89-day moving average).

The PTI (see page 2 chart) deals with only one item -- market **reality.** The PTI doesn't care about short sales, margin debt, bull or bear sentiment, put/call ratios, odd-lots or the predictions of experts. The PTI deals with only one thing -- **market action.**

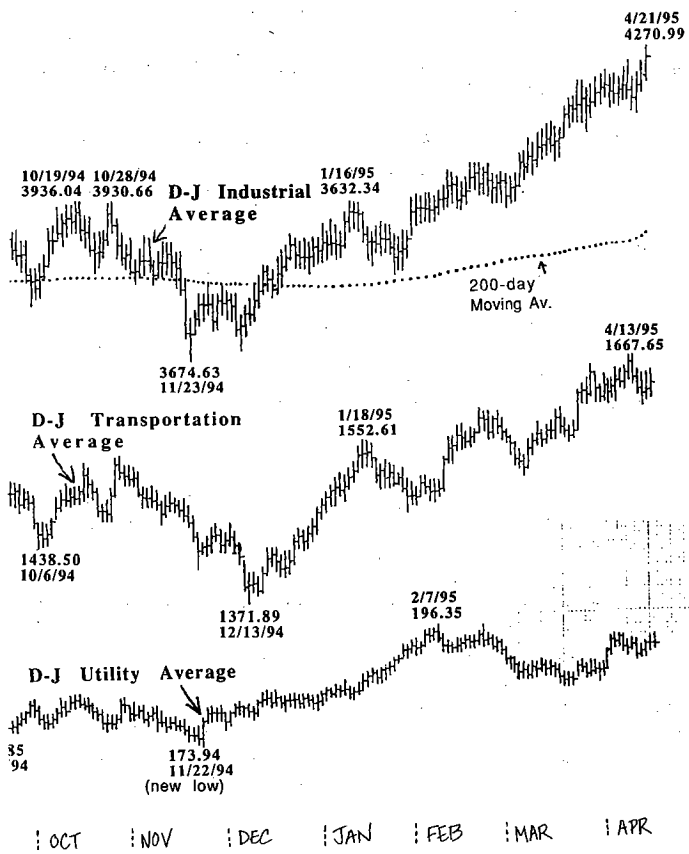
The PTI does not "predict" so much as it *defines and clarifies* the underlying trend of the market. The PTI is composed of eight indexes and indicators -- each of these indicators is based on *market action* (as opposed to market sentiment or some other items requiring subjective analysis). The PTI is constructed in that if it continues to rise, it MUST take the market with it. Conversely, a declining PTI, by construction, MUST take the market down with it.

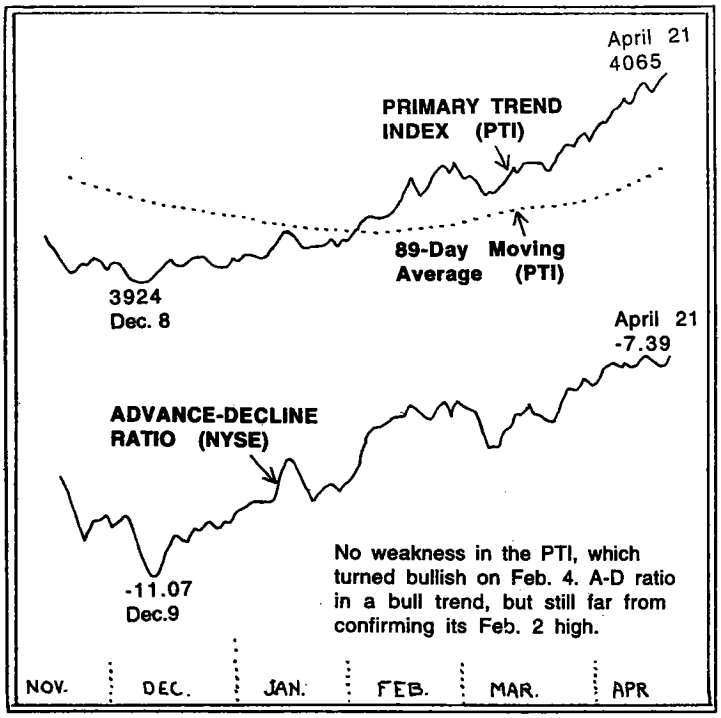
Apr. 13 DJIA 4208.18; PTI 4059; A-D Ratio -7.40
Apr. 21 DJIA 4270.99; PTI 4065; A-D Ratio -7.39
Dow Yield: 2.57%; Dow Price/Earnings: 15.5
Dow 200-day MA: 3884; Dow 30-day MA: 4139
Dow Times Book Value: 3.82; PTI 89-day MA: 4000
Percentage of Undervalued Blue-chips: 8%
Dow Low Risk Buy Index: +86; Gold-PTI: 762
Gold 200-day MA: 384.13

From its inception back in 1971 I have always "analyzed" the PTI on a mechanical basis. If the PTI is above its 89-day moving average, it is bullish. If it is below its 89-day moving average, it is bearish. Why do I use an 89-day moving average instead of say a 200-day MA or a 50-day MA? Trial and error -- I simply found that an 89-day moving average worked best in that it got you on the right side of the market fairly soon while also tending to eliminate whipsaws (whipsaws being the bane of any technical trading method).

From a longer-term standpoint, nothing of note has changed in this market over recent months. The D-J Industrials have moved into record high territory. The Transports and Utilities, while moving in the same direction, have not confirmed in that they have not advanced to record highs.

DOW: For those looking for early hints of trouble, my experience has been that the market is in trouble when the *strongest sector of the market finally turns down.* The strongest sector of this market has been the high-capitalization stocks, and these are well represented by the Dow.





Remember (refer to the page 2 chart in the last Letter) the advance-decline ratio headed lower all during February-December of 1994, but the Dow never joined in the general weakness. The Dow, in fact, never broke below its April low. Then, when the A-D finally turned up in early December 1994, the Dow rallied strongly and the A-D sluggishly followed.

But make no mistake about it, the Dow is the real strength of this market. Therefore, let's watch the Dow closely. When the Dow finally turns down, the rest of the market will be only too willing to follow. We know the breadth and the Transports and the Utilities have been the weaker indices, the laggards, but the **key** to this market is the strong Dow.

WHAT REALLY BOTHERS ME: First, let me confess that this is one of the more puzzling markets that I've had to deal with. And here's what I'm thinking -- based on its duration, extent and on its thin yields (overvaluation), this market "should have" topped out months ago and "should" now be declining in a major way. Yeah, right, but of course, that's not what it's doing.

So what event or series of events could trigger a major, and I mean MAJOR, bear market decline? The obvious item would be a forthcoming severe recession. But is there another possibility? Could it be a *relentless destruction of the dollar?* Remember, the dollar and the whole currency question is the one that *is least understood by the public or the professionals.*

I keep looking at the ominous dollar fundamentals. And frankly, I don't see any fundamental forthcoming changes. The US continues to add to its national debt at the rate of $1 billion a day. The US continues to run a current account deficit of around $12 billion a month (these dollars are piling up overseas). The politicians keep talking about reducing the deficit, but so far it's mostly talk. The Fed refuses to defend the dollar via rising interest rates, because the Fed fears higher rates will bust the debt-laden economy. Moreover, the Administration appears almost pleased with the "cheaper" dollar. The Japanese are playing tough regarding any trade deals which might help the dollar. The Asian central banks (which are increasingly powerful) are moving to reduce the level of their dollar reserves. The US public appears singularly ignorant of, and disinterested in, the decline of the dollar. And Wall Street doesn't seem that worried either.

IMF Chief Slams Fed for Ignoring Dollar

Camdessus Calls for Increase In U.S. Interest Rates; Economic Threat Cited

By David Wessel
Staff Reporter of The Wall Street Journal

WASHINGTON -- The head of the International Monetary Fund said the U.S. Fed-early Tokyo trading Wednesday, the dollar touched a new low of 79.85 yen. Yesterday, the dollar declined to 1.3530 German marks from 1.3685. (See article on page C15.)

Mr. Camdessus said he personally favors an attempt by the U.S., Japan and Germany to recreate the high-profile public cooperation on the dollar that marked the Plaza and Louvre accords of the 1980s. But he allowed that he is in "a possibly distinguished minority."

In the absence of such a campaign, he

Mr. Camdessus's comments on U.S. economic policy, unwelcome in Washington, illustrate one of his defenses to criticism that the IMF wasn't public enough in its assessment of Mexico's economic policies last year. Countries are ambivalent about the IMF surveillance, he said. "They love surveillance on others. They hate it when it is on them."

In previewing proposals he will make to the IMF's policy committee, which meets here next week, Mr. Camdessus made a

Remember, *ALL US securities are denominated in dollars.* With this in mind, what would happen if this turns out to be the beginning, just the early beginning, of the virtual destruction of the dollar? What if the world decides that not only does it not want more dollars -- but that it wants to cut down on the amount of dollars that it now holds? Come to think of it, isn't that what's happening?

Comment: Jim Grant (*Grant's Interest Observer)* quotes James Bianco (*Arbor Trading Group*) as follows: "Between the start of the first mutual fund in 1924 and the October 1990 stock market low, the public committed $102 billion to equity funds. From October 1990 through February 1995, it committed some $380 billion more. In other words, 80% of all the money that has come into equity mutual funds has come in since the 1990 low, and we haven't had a 10% correction on that money." Bianco notes further that on average the public has invested its post-1990 money at a price of 440 on the S&P and 3510 on the Dow. "What I have found is that when the average cost gets below break even, the public sells in a big way."

INVESTMENT POSITION: I'm tempted to put a question mark in the box, but I'm going to stay with the bear for a while longer.

Here's an interesting question: why not ignore everything else and just put your money on the PTI? When the PTI is bullish you're in. When it's bearish you're out. It's easy, all you have to know is up from down. That's fine with me, and frankly, if I had to follow a single mechanical procedure that would be it. And many of my subscribers do exactly that.

Personally, I've never had the stomach to stay in the market when it's at what I call "the extremes." The total dividends on the Dow are now 109.62. With the Dow at 4270, that brings the yield down to 2.57%. Gad, that's thin, thin, thin. Listen, I'm not greedy, I'm just patient. So I'll wait until the market's where I want it, not where the market wants me.

The place to be over the last few months was the Japanese yen (up over an incredible 1,000 points in the last month). But obviously, that's a lot to ask of subscribers. However, the practical place to be is in T-bills and gold. The precious metals now look better than they have in quite a while. You don't have to be cute or tricky here. If you like gold just take a position in Placer Dome, Homestake and Barrick. Add Battle Mountain and Agnico Eagle if you want more. Of course, I always like the ultimate insurance, gold coins. If every paper currency in the world goes to hell, there will still be one brand of money left, the only real brand -- gold. I recently bought the December 440 gold calls (options). Each option gives you a call on 100 ounces of gold if gold goes above 440. Gold volatility is low now, so the options are relatively cheap, $400 an option as of last week. But remember, options are a spec and should only be indulged in by knowledgeable investors who understand the risks and the rewards.

TECHNICAL NOTES: Volatility equals *action either up or down.* Volatility is usually expressed in percentages. I've talked about the amazingly low market volatility of the past few years. Martin Zweig in his latest report notes that since 1928 there have been only six years in which S&P volatility was 10% or less (meaning that the S&P fluctuated less than 10% from its year's high to its year's low).

Incredibly, we've now had three consecutive years of less-than 10% volatility in the S&P (i.e., 1992, 1993 and 1994). And so far

1995 is stacking as the fourth. *This has never happened before in stock market history.*

Commodity traders (who deal constantly with volatility) know that periods of low volatility tend to be followed by periods of high volatility. The stock market will be no exception. So my feeling is that we are drawing ever-closer to a period of HIGH stock market volatility. Another way of putting it is that we are moving closer to a period of BIG ACTION.

The question -- will the coming "big action" be up or down? I'll have to guess down. Here are my reasons: (1) The continuing very low yields on the Dow and the S&P. These minuscule yields are characteristic of market tops. (2) The stock market has not had so much as a 10% correction in the last four years. It's way overdue. (3) Over the last 12 years the Dow has never broken below the low of a preceding year, an unprecedented performance. A break is overdue. (4) The advance-decline ratio has failed so far to confirm the new highs in the Dow. This constitutes dangerous divergence. (5) The D-J Transports, so far, have not confirmed the new highs in the Dow. (6) The D-J Utility Average has never bettered its record high established back in 1993. (7) The current market is displaying signs of "churning," which means high volume with not much movement, particularly sluggish breadth. (8) Margin debt on the NYSE dropped a big $4.4 billion in February. This took margin below its 12-month moving average. There is a good correlation between the trend of margin and the trend of the market.

Conclusion: Three (and this year will be the fourth) successive years of very low volatility should be leading up to some kind of market fireworks. I think the fireworks will be on the downside.

THOSE PRICE/DIVIDEND RATIOS: My friends at *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) always provide sound advice and excellent research studies. In their latest report, *GFG* includes a table showing ALL the historic peaks in the price-to-dividend ratios for the S&P 500 going back to 1882.

WHAT DID THE MARKET DO AS P/D RATIOS MOVED FROM HIGHS IN THE 30 AREA TO THE 15 AREA?

P/D Ratio		To Market High		To Market Low	
Highs	Reached	Months	%	Months	%
32	3/1882	-9	- 4.9%	27	-20.4%
34	4/1899	7	+ 1.1%	7	-20.0%
33	4/1901	2	0.0%	31	-43.9%
32	1/1906	9	+ 0.8%	13	-45.2%
32	8/1909	4	+ 7.9%	62	-30.1%
32	11/1915	12	+19.3%	12	-36.1%
35	9/1929	0	0.0%	33	-86.2%
35	7/1933	0	0.0%	20	-33.9%
33	3/1936	12	+25.2%	12	-54.5%
30	1/1939	-2	- 4.1%	39	-45.9%
29	5/1946	0	0.0%	25	-29.6%
33	7/1959	1	+ 0.1%	14	-13.9%
36	11/1961	1	+ 1.1%	6	-28.0%
35	10/1965	4	+ 1.7%	8	-22.2%
35	11/1968	0	0.0%	8	-22.2%
38	1/1973	0	0.0%	21	-48.2%
38	8/1987	0	0.0%	4	-33.5%
Averages		2.4	+ 2.8%	20.7	-36.9%
38	1/1994?	?	?	?	?

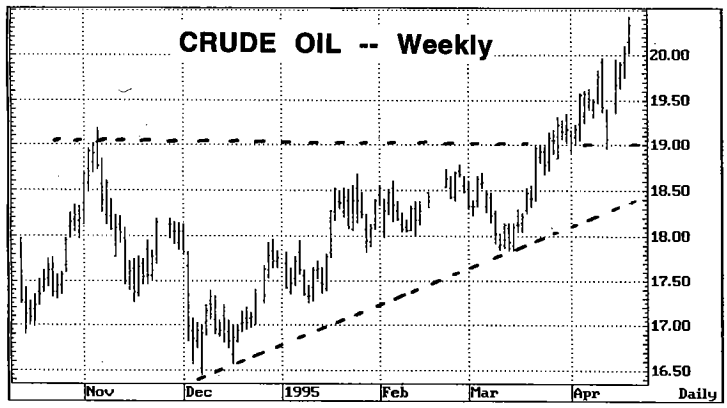
These statistics are worth studying carefully. Note that there have been 17 previous instances in which the S&P sold at **29 or more times its dividends.** In **all cases,** these price/dividend peaks were accompanied by, or followed by, important declines. The shallowest decline occurred after the 1959 price/dividend peak; that decline was -13.9%. The worst decline occurred following the 1929 peak; that decline was -86.2%. The average decline for all 17 instances was -36.9%.

To bring the study up to date, the S&P sold at a whopping **38** times its dividends in January 1994. Fifteen months have elapsed since the early-1994 price/dividend peak, and still the S&P remains near or at new record highs.

What's happening? Why has the price/dividend ratio held this high for this long without setting off a bear market decline? Two reasons, I believe. The first is the extraordinary current "cult of equities," meaning that the public has become and remained amazingly **confident and optimistic about stocks.**

The second reason (which could be a corollary of the first) is that the public has continued to pour billions of dollars monthly into thousands of mutual funds. The funds have turned around and socked that money into the stock market and more specifically into the high-cap "safe" stocks.

Stock market timing (particularly tops) are difficult to pin-point, which brings me to that old adage, *"the stock market always does what it's supposed to -- but never when."* That describes the conditions that I think prevail today. The 17 previous instances of high price/dividend ratios tell us that we are now deep in the danger zone. But the **timing** here in 1995 varies from past instances. Nevertheless, I'm convinced that the market will do "what it's supposed to do," which is to decline in a major way, following almost two years of sky-high price-to-dividend ratios.

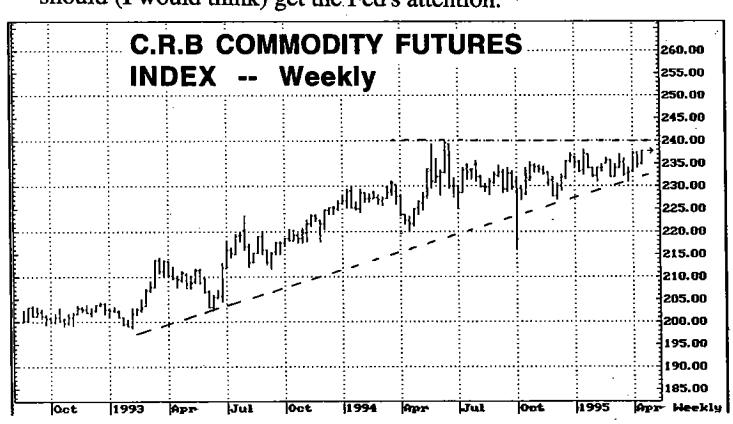


IT'S BA-A-A-CK: Yes, I'm talking about rising oil prices. I ran this weekly chart of crude oil breaking out above the November peak of 19 dollars and heading over 20.

Oil is purchased in dollars, and rising oil prices and rising demand is definitely a plus for the dollar (and God knows, the dollar needs all the pluses it can get).

Iraq turned down the UN's offer which would have allowed the outlaw nation to sell $2 billion of oil. In the meantime, oil demand from Asia is rising and the US now imports better than 50% of its oil.

Rising oil prices are obviously inflationary. I'm also watching the CRB Commodity Futures Index to see whether it breaks out above the critical 240 level. This index has been in a rising trend since early 1993. The CRB stalled during most of 1994, but here in 1995 it has risen to within less than three points of its April 1994 peak of 240. Rising above 240, along with the current powerful oil rise, should (I would think) get the Fed's attention.



The Fed pumped up the money supply for years while at the same time it knocked interest rates down to absurd levels. Fed action usually takes a few years to work into the economy. And I'd guess these charts are beginning to reflect the Fed's action.

I assume Alan Greenspan watches the same charts that I do. What will he do? My guess -- nothing unless gold confirms by surging above 400.

SECOND NOTICE: Two letters ago I mentioned that after 37 years of writing *Dow Theory Letters,* I was finally, for the first time, starting a new business. Furthermore, I stated that this new business is where I've put most of my own and my family's money. Finally, I told subscribers that you were welcome to find out about the new business and even join in if you wanted to. The response has been huge, and I've had to reprint the literature. So one more time, if you'd like to find out what I'm up to (and if you'd like an education in a relatively new investment field), just write (PO Box 229, La Jolla, CA 92038) and tell me that you're interested. We'll send the literature out pronto, with a thank you for your interest.

NOTES & QUOTES: So former Secretary of Defense Robert McNamara is sorry about the Vietnam War. "What we did," he confesses in his new book, "was terribly, terribly wrong." Really, but I knew that back in the '60s when I wrote against that damnable war over and over again. Now they're saying that McNamara is to be complimented for coming out and admitting to his former arrogance and stubbornness and stupidity. Maybe, but 58,000 Americans (and three million Vietnamese) died for the Johnson/McNamara arrogance and stupidity. A lot of people thought that Johnson and McNamara knew something, some secret, that justified the war. There were no secrets, no secrets at all -- except that we were losing and they were trying to hide that fact from us. McNamara invented the "body count," that sick daily tabulation of confirmed enemies killed. Writes McNamara, "I want Americans to understand why we made the mistakes we did and learn from them." Well, I guess it's a case of "better late than never." Thanks McNamara, but too bad you weren't braver and more honest back in the '60s when it would have done some real good.

* *

I was sorry to see Woolworth *omit* their dividend. The company has paid dividends continuously since 1912. During the Depression my father would own only two stocks, AT&T and Woolworth, both (1) because they were literally "Depression proof" and (2) because they never even came close to cutting their dividends.

* *

By the way, I've said before and I'll repeat it -- in my opinion the *two biggest disasters* in American history were (1) the continuing immoral policy of running massive, never-ending Federal deficits, and (2) the Vietnam War, which went a long way towards bankrupting this nation, both financially and morally.

* *

On April 25 the Chicago Mercantile Exchange will add the peso to the seven other currencies traded on that exchange. Corporations who have been whipsawed unmercifully by the collapsed peso will now be able to hedge. And speculators will be able to, well, speculate.

* *

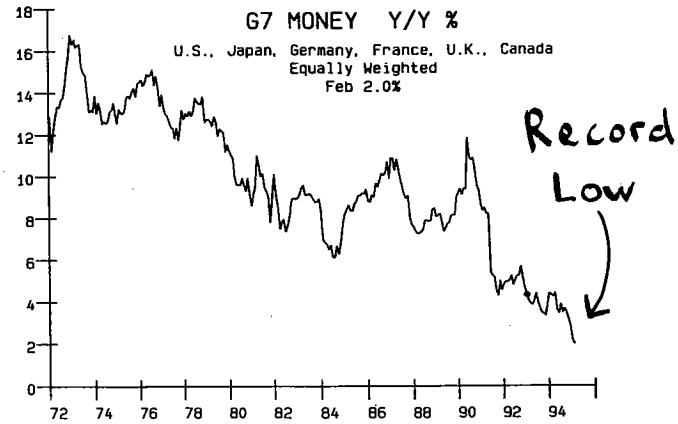
What happens when China takes over Hong Kong in 1997? According to London's *Financial Times, "Britain is concerned that Hong Kong will pass to China with an incomplete legal system, demoralized civil service and police force, and inadequate provisions for free movement of Hong Kong residents. This gloomy prognosis for one of Asia's most vibrant economies emerged as talks between Britain and China on Hong Kong's future ground to a virtual standstill."* **Russell comment:** For years we've been hearing that China will leave Hong Kong intact and alone because Hong Kong is the conduit for bringing hard money to China. Yeah, but I'm starting to wonder.

* *

Guys I like: Richard Lugar, who as things stand, would get my vote for president. Lugar's tops in foreign policy, he's smart, sincere and totally honest. And he's pushing a national sales tax in place of the hated IRS and the income tax. **Guys I don't like:** Leno (Lee) Iacocca, who was kicked out of Ford and later voted out of Chrysler. I don't trust Lee, and I'm not sure the market does either.

* *

The **global growth of money supply** keeps sliding. This chart of G-7 money supply growth appears to be heading for zero. And it's well to remember that money growth tends to lead economic activity. World recession coming? The chart is courtesy of Ed Hyman and *ISI.*



Here's another chart from Ed Hyman, and it goes a long way towards telling why there's so much anger and angst in the US. Here we see Federal + State + Local taxes as a percentage of the nation's GDP. The percentage is now at **record levels.** Never have Americans paid so much in taxes as a percentage of Gross Domestic Product. And what do we get for all these taxes? Big government + distribution of wealth.

* *

To me it's incredible, and I'm talking about the financing of DreamWorks SKG, the new "concept company" owned by Spielberg, Geffen and Katzenberg. Don't get me wrong, these three guys have a lot of talent. But listen, they've sold a one-third equity interest in their company, sold it to outsiders for about $900 million. And the three guys have kept a two-thirds equity by putting up just $100 million. *DreamWorks has no assets, just its three star executives.* Paul Allen (Bill Gates' partner) has invested $500 million in DreamWorks and Korea's Samsung will invest $300 million, and a lot of others would love to have a piece of the pie. What amazes me is that money has so freely rushed into such a risky business. I don't care how good these three guys are, I know the basic Hollywood slogan which states, "Nobody knows

anything." Meaning a little picture like Forrest Gump can make a fortune and a big, expensive picture like Heaven's Gate can cost a fortune. Can the fab three repeat their past triumphs? We'll find out?

* *

A total of 21 states and countless municipalities have made English their "official language." I'm all for it. I think it's ridiculous to cater to immigrants' unwillingness to learn English. How's this for the height of ridiculousness: this year LA plans to publish all public notices in six foreign languages. Last year the IRS published and distributed a half million tax forms and instruction books in Spanish. For all that, only 718 returns were filed. Listen, if I move to Paris, is the French government going to send my kids to special dual language schools? Will I get government literature written in English? Forget it. The US, as usual, is off the deep end.

* *

This from an interview with the brilliant Clay Felker, founder of *New York* magazine and later editor of *The Village Voice,* then *Esquire,* then *Adweek* and finally *Manhattan, Inc.*: "I live in Berkeley, which is where I want to live. If I'm going to live in the big city, New York is the big city. San Francisco is wonderful, but I want to live in an academic community . . . It's another kind of a more informal life, more a life of ideas, whereas New York is a place that's the most uncomfortable, expensive place you can live in and it is all about work. I mean, there is no other reason to be a resident of New York unless you're working there, and it's about deals and who's up and who's down." **Russell comment:** My biggest complaint about New York is that there's no place to sit down (that is, unless you're willing to venture into Central Park). Of course, the same is true of Las Vegas (unless you're willing to sit in front of an one-armed bandit). As I get older I realize that sitting down is very important. I used to judge a town by how many book stores and art theaters it has. I've added places to sit down.

* *

California and particularly San Diego offers a thousand great places to sit down or even to lie down. Once, about 20 years ago, I set out to visit my daughter, Daria, at summer camp. I left on my motorcycle (around 6AM) and headed east on US 8. I guess I was riding too fast, because I arrived near the camp around 7AM. It was obviously too early, so I parked my bike on the side of the desert road and stretched out on the dry, white sand. The sun was just coming up, the cacti were blooming, and there I was, on my back, looking up at the clouds. Within five minutes I was visited by two dragon flies, a horned toad and about a dozen curious jack rabbits. One rabbit hopped up to within a few yards of me and just stared, probably wondering what I was doing out there in the middle of nowhere. It was one of the pleasantest and most interesting moments of my life, and I remember it as though it was yesterday. Now, c'mon, that would never happen on Broadway. Mmm, of course a lot of other things happened to me on Broadway (for instance, I was there on that wild V-J day, 1945, and believe me, that was an experience I'll never forget). Uh, I think my mind is wandering - - -

* *

"Russell, how're you feeling?" I guess I get more letters asking about my health than anything else. Update -- I feel good, I look pretty good (so they tell me), my weight's OK, I do 30 minutes a day on the treadmill (speed 3.5), and two weeks ago I had chelation treatment number 41 (I'm going to do one treatment a month from now on). Last week I did a treadmill-stress test, and my cardiologist said my time (10 minutes) was the same as it was two years ago, so no deterioration there. And as I've revealed before, the angina (chest pains) I used to get around once a month have now almost disappeared. Whether this is due to chelation, I don't know, but for whatever reason the pains are rare now, and when they do appear they're quite mild.

A few months ago the California Medical Association tried to ban chelation (intravenous injections of the chemical, EDTA) in the state, but they had so many complaints from so many satisfied patients who showed up at the meeting that the Board held off. Believe me, the docs don't exactly love alternative medicine. They treat it as an affront to "real" medicine.

A lot of subscribers have asked me about chelation and where they can get the treatments. Without taking up a lot of space here, let me tell you that the best thing to do is go to your local health food store and simply buy a book on chelation (there are a number of them in print -- I like "The Chelation Answer"). Would I recommend chelation? What can I say -- I had a heart attack in 1970, a quintuple bypass 12 years ago, I had a "stent" put in one of my bypass grafts two years go. And finally I said, "Enough, I'm going to try something different." I'd heard about chelation, but I never took it seriously. So I bought the book, "Bypassing Bypass" and read it cover to cover. Chelation sounded like something worth trying. I tried it, and I think it works. Would I recommend it to someone who had heart trouble or circulatory problems? Read the literature. Before I did it I asked my cardiologist about it. He was surprisingly open-minded but also non-committal: "Well, it probably won't hurt you, and I'm not convinced it's worth anything, but try it if you want." I tried it, and I'm glad I did. And I recommend it. End of story -- for now.

* *

The marvelous France-to-England or vice versa "Chunnel" has run into financial trouble. The tunnel was supposed to cost $7.5 billion, but it ended up costing more than twice that much. Interest costs are now running near $1 billion and the stock has caved in. Company officials now concede that the Chunnel might be out of cash by the end of next year. The trains carrying tourists and cars are now running at the rate of two per hour in each direction and are expected to double this summer.

The Chunnel may make it or even do well. It reminds me of something my old dad told me (he was a civil engineer). During the Depression construction halted completely and of necessity dad turned to real estate management. Said my father, "Every builder I ever knew or worked for eventually went broke. But the buildings those fellows put up, they're still standing. Eventually a new owner comes along. The new owner buys the building at half what it cost to construct, he refinances the building, and he makes a nice profit." You know something -- that's close to what's happening today, at least in San Diego.

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Falling Mortgage Rates Fail To Halt Skid

Housing Starts Plunge To Two-Year Low, Led By Huge Drop In West

By JOHN D. McCLAIN
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WASHINGTON — Housing starts plunged 7.9 percent in March to a two-year low despite falling mortgage rates that had

Single-family starts fell 6 percent to a 979,000 rate, lowest since 939,000 in March 1993. It also was the third straight drop.

Construction of apartments and condominiums plunged 15.3 per

Is the Fed worried about business in the US? Is that why they've refused to raise interest rates in the face of a crashing dollar? We know that two-thirds of GDP is due to consumer buying. And we know that auto and home sales constitute 50% of consumer purchases. With that in mind, it's well to note that car sales have been trailing off and housing sales have dropped for two months in a row. Here in the West home sales have dropped dramatically. Is this the beginning of the expected "soft landing"? Or will the landing be anything but soft? All the Fed people and all the economists don't know the answer to that one.

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Stores on N.Y. Shows: Some Looks to Sell, But Thrills Are Lacking

NEW YORK — Retailers were counting on designers to deliver a wake-up call to the industry last week. What they said they got, for the most part, was a long yawn.

While buyers claim to have found some tempting clothes from old reliables like Bill Blass and Oscar de la Renta, as well as some of the younger designers, by the end of the week they were still searching for the big trends.

"I think the trend is that there is no trend," said Gene Pressman, co-president of Barneys New York.

Help! The glamour business of the moment is not Hollywood, it's fashion. But lately too many women's fashions have been unwearable. Consequently, retail sales have been slow. Here's the latest story from the front page of the bible of fashion, *Women's Wear Daily.* The news -- no new exciting trends. Women will be on their own in '95-'96.

Are department stores dinosaurs? Stanley Marcus (brilliant ex-head of Neiman Marcus) thinks so. Department stores, he says, are floundering because they take the same markup specialty stores do but

don't offer as much service and ambiance. They are isolated between discounters and specialty stores, satisfying few and losing customers to both. What about fashion? Says Marcus, "Fashion is ugly. Designers are all mixed up and suddenly conceive of themselves as great artists and they're making an ego statement. They're hoping to write a book or sign a movie contract, and they've lost a sense of purpose of making clothes that are attractive. They're so eager to get their names in *Vogue* that they make extreme things, many of which never get into production, but get into photographs." **Russell comment:** Good thing they didn't ask Stanley about the super-models.

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Speaking of fashion, a wife of the Sultan of Brunei (richest man in the world) missed the Ralph Lauren show in NYC. But Lauren obliged. His people brought two racks of spring clothes to her suite at the Four Seasons Hotel plus 70 outfits from his fall show, a show video and a fall book. The wife bought three complete spring outfits and nine complete fall outfits, and paid the $31,000 in cash (the cash was vacuum-packed envelopes filled with $100 bills). Ah, to be rich.

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LA says good bye to the football Rams; the Rams are moving to St. Louis, where we trust they won't end up singing "the St. Louis Blues." At first the Rams offered the NFL $20 million if they would allow the Rams to move. No dice. "How about $46 million?" asked the Rams, "and if you don't accept that, we'll sue the NFL for $1 billion." That did it; the league said OK, and St. Louis has a new football team.

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They're everywhere, and I'm talking about the new concept restaurants. We have the Hard Rock Cafe, Planet Hollywood, Harley Davidson Cafe, Dive, House of Blues, Television City, Motown Cafe. And now the latest, the Fashion Cafe fronted by three "Super Models." Where will it all end? It will end with the public getting bored by the whole dopey parade. In the meantime, the concept restaurants are spreading like algae in warm water.

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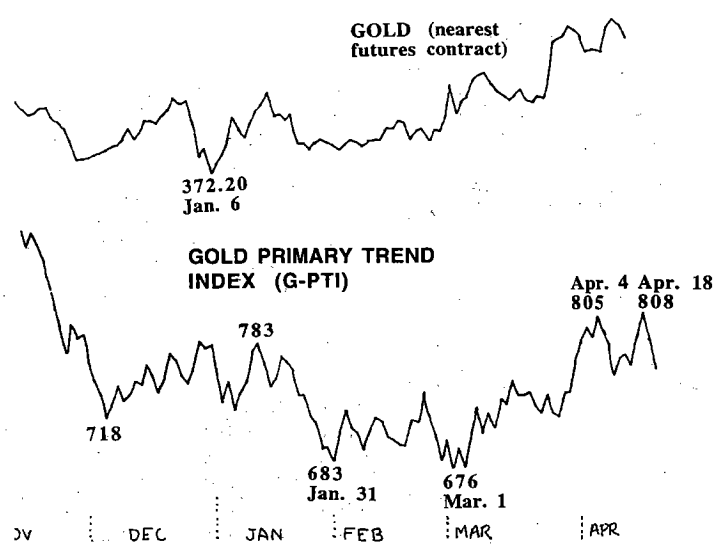
Baseball season is here. Want to deflate your local baseball expert? Ask him to describe the FIVE ways that a player can get on first base without ever hitting the ball??? (1) Player is hit by pitched ball; (2) A balk; (3) Base on balls (or a walk); (4) He's put in as a pinch runner; (5) Beating the throw to first base on a strike if the catcher drops the ball.

GOLD: Watching the gold action is tantamount to being subject to the Chinese water torture treatment. Every gain is immediately retracted. To put it mildly, the progress has been SLOW.

On April 18 hope was fired up as my Gold-Primary Trend Index rallied to 808, above the April 4 level of 805, and its highest level since November. But the "breakout" was immediately rescinded as the G-PTI promptly fell back towards the 720 level.

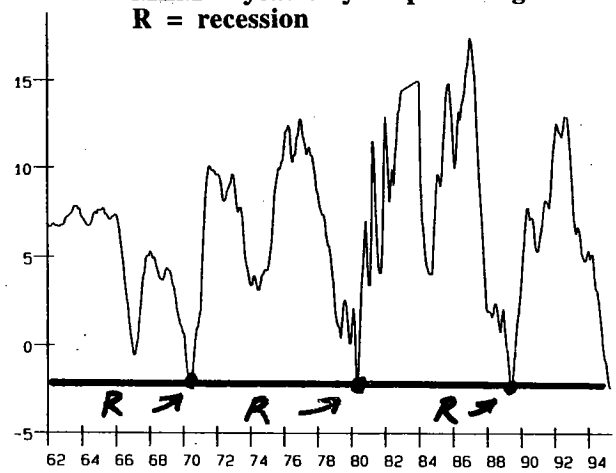


The G-PTI is based on the same principle as my PTI, and that is -- it is based not on sentiment, not on guess or estimates; no, the G-PTI is based strictly on the action of 27 different gold components. Let me put it this way -- if the G-PTI heads up on a trend basis there is no way that gold and gold stocks are not going to follow. Conversely, if the G-PTI heads down, well, you get the idea.

Right now I'd describe the G-PTI as trendless, but hopefully, and I stress hopefully, tracing out a bottom of potential major importance.

LATE NOTES: I just received this chart from Wall Street premier economist, Edward Hyman. The chart is worth studying and pondering. MZM is "money of zero maturity," and it's made up of M-1 plus money market funds. MZM is now at a no-growth level, which in the past (three previous instances) has corresponded with recession. As I said, it's worth pondering.

MZM -- year to year percentage
R = recession



Nevertheless, the situation is now as complicated and puzzling as any I've ever seen. My "churn-plunge Index" (Letter 1166) is at an extreme high, meaning that the market is now "churning," which in turn means that advances and declines (25-day totals) are very near even. In the past, this has meant a lot of distribution, and you can see this almost daily by comparing the number of advances and declines on the NYSE. For instance, on April 20 with the Dow up 23 points there were only 154 more advances than declines and on the 15-most active stocks list, there were four more declines than advances. Strange action, indeed.

However, this is where my PTI comes in. The PTI's greatest use is clarifying difficult technical situations, and as you can see on the page 2 chart, the PTI has been pushing persistently higher.

The concentration of new money into the strongest of the Dow stocks is truly amazing. With the omission of the Woolworth dividend, I calculate the trailing dividends for the 30 Dow Industrial stocks at 109.62. With the Dow in the 4270 area, I put the Dow yield at 2.57%. This would be the lowest Dow yield in stock market history. Buyers of stocks and particularly Dow stocks have to be highly "gutsy" and extremely optimistic. We're moving into unchartered territory, and Dow Theorists know that the essence of Dow Theory is an understanding of VALUES.

I caution newer subscribers to adhere to the Dow Theory method of accepting only CLOSING prices and statistics on the stock market. Intra-day action and prices can be highly deceptive. It's what the market looks like **at the close,** when traders have completed their trades (or moved out of the market) that counts. This is why Dow Theorists draw closing prices only on their charts of the Averages.

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